

Message Text

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ACTION EUR-12

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EPG-02 TRSE-00 SS-15 STR-04 OMB-01 CEA-01 CIAE-00
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FM AMEMBASSY VIENNA
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AMEMBASSY PARIS

C O N F I D E N T I A L VIENNA 6800

USOECD

E.O. 11652: GDS
TAGS: EFIN, AU
SUBJECT: DOLLAR SLIDE PUTS NEW PRESSURE ON HARD SCHILLING POLICY

REF: VIENNA 2215

1. SUMMARY. THE RECENT DOWNSLIDE OF THE DOLLAR HAS ADDED TO EXISTING PRESSURES ON THE GOA'S HARD SCHILLING POLICY WHERE IN THE SCHILLING (AS) IS TIED CLOSELY TO THE DEUTCH MARK (DM). RENEWED CRIES FOR LOOSENING THE TIE FROM INDUSTRIALIST AND EXPORTER GROUPS HAVE, AS USUAL, MET WITH COUNTER ARGUMENTS FROM GOA SPOKESMEN, BUT THIS TIME THE DIRECTOR GENERAL OF THE NATIONAL BANK HAS ADDED A NEW ARGUMENT, NAMELY: THE AS HAS NOT BEEN "STUCK" TO THE DM. SINCE THE RECENT RECORD DOES NOT REALLY SUPPORT THIS STATEMENT, THE DIRECTOR GENERAL MAY HAVE BEEN GIVING A SIGNAL. END SUMMARY.

2. WHEN THE GOA TIED THE AS TO THE DM LAST YEAR THE THEORY WAS THAT THIS LINK -- IN ADDITION TO
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SYMBOLIZING THE STRENGTH AND STABILITY OF THE AUSTRIAN ECONOMY UNDER THE SOCIALIST GOVERNMENT -- ALSO WOULD KEEP INFLATION IN LINE WITH THE FRG AND PRESERVE AUSTRIA'S IMPORTANT EXPORT MARKET THERE. SINCE THEN THE GOA HAS INDEED DONE WELL IN REDUCING INFLATION (CURRENTLY 5.7 PERCENT ON AN ANNUAL BASIS) AND HOLDING DOWN WAGE INCREASES, WHILE MAINTAINING A VERY CREDITABLE

GROWTH RATE (5.6 PERCENT IN THE FIRST QUARTER 1977). WHERE IT HAS FAILED TO MATCH FRG PERFORMANCE, HOWEVER, HAS BEEN IN ITS INTERNATIONAL ACCOUNTS. IN 1976 AUSTRIA REGISTERED A RECORD TRADE DEFICIT OF AS 54 BILLION, AS A 26 PERCENT INCREASE IN IMPORTS CAPSIZED AN OTHERWISE RESPECTABLE 16 PERCENT INCREASE IN EXPORTS. THE CURRENT ACCOUNT DEFICIT NEARLY QUINTUPLED OVER THE PREVIOUS YEAR, AND RESERVES DROPPED BY 36 PERCENT.

3. THIS TREND HAS CONTINUED IN 1977. DURING THE FIRST 5. MONTHS, IMPORTS HAVE INCREASED 14 PERCENT WHILE EXPORTS WNT UP 10 PERCENT. THE CURRENT ACCOUNT DEFICIT IS UP BY 60 PERCENT, AND RESERVES DROPPED ANOTHER 25 PERCENT. EXPORTS TO THE US OVER THIS PERIOD DID REGISTER A 30 PERCENT RISE, BUT THIS APPEARS TO BE THE RESULT OF SPECTACULAR SALES OF ONE ITEM -- MOPEDS -- RATHER THAN ANY ORGANIC DEVELOPMENT.

4. SINCE JANUARY 1976 THE DOLLAR HAS DEPRECIATED BY 15.6 PERCENT VIS-A-VIS THE AS -- MINUS 4.4 PERCENT OVER THE LAST 4 WEEKS ALONE. THIS RAPID CHANGE, HIGHLIGHTED BY PRESS REPORTS THAT THE US AND FRG ARE FORCING RETURN TO A FIXED EXCHANGE RATE SYSTEM WITHOUT REGARD FOR THE EFFECT ON THE SMALLER INDUSTRIALIZED COUNTRIES (SEE FBIS 211505Z JUL. 77), HAS PROVIDED NEW AMMUNITION FOR THE AUSTRIAN INDUSTRIAL AND EXPORTER GROUPS

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WITH LEGITIMATE CONCERNS ABOUT THE INCREASED OVER-PRICING OF AUSTRIAN GOODS AND SERVICES, AS WELL AS THOSE INTERESTED PRIMARILY IN TAKING A POKE AT THE USA.

5. THAT THE GOA IS SERIOUSLY CONCERNED ABOUT ITS ABILITY TO MAINTAIN A HARD SCHILLING POLICY HAS BEEN CONFIRMED IN RECENT DISCUSSIONS BETWEEN SENIOR NATIONAL BANK OFFICIALS AND THE ECONCOUNS. WHAT THEY PROPOSE TO DO, HOWEVER, REMAINS HIDDEN BENEATH THE USUAL FINANCIAL VEIL. THE DIRECTOR GENERAL OF THE NATIONAL BANK SOUNDED THE LAST NOTE WITH A PRESS STATEMENT THAT THE AS HAS NOT BEEN GLUED TO THE DM. SINCE THE RECENT RECORD DOES NOT STRONGLY SUPPORT THIS STATEMENT, WE WONDER WHETHER IT MAY HAVE BEEN A SIGNAL RATHER THAN A RECOUNT. WHILE THERE ARE STRONG ARGUMENTS AGAINST LOOSENING THE TIE IN SUMMER WHEN THE NUMBER OF FRG VISITORS IS HIGHEST, THE KEY QUESTION WOULD SEEM TO BE AT WHAT POINT DO THE PRICE TRADE-OFFS FOR THE 40 PERCENT OF AUSTRIA'S IMPORTS THAT TRADITIONALLY COME FROM THE FRG OVERCOME THE ADVANTAGES OF HISTORICAL SUPPLIER TIES, COMMON LANGUAGE AND SERVICE. FOR IT IS EVIDENT THAT WHAT AUSTRIA IMPORTS FROM THE FRG DOES NOT OCCUR

BECAUSE THE PRODUCTS ARE NOT AVAILABLE ELSEWHERE. MEEHAN

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Message Attributes

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Control Number: n/a
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Sent Date: 25-Jul-1977 12:00:00 am
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Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 22 May 2009
Disposition Event:
Disposition History: n/a
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